

FISCAL NOTE

HB 493 - SB 735

February 15, 2005

SUMMARY OF BILL: Creates an excise tax exemption for all subchapter S corporations that are 100% family-owned.

ESTIMATED FISCAL IMPACT:


Decrease State Revenues – Exceeds \$2,000,000

Assumptions:

- Family-owned means 100% of the corporation's shareholders are members of the same family.
- With respect to an individual, family is defined as: (A) an ancestor of such individual; (B) the spouse or former spouse of such individual; (C) a lineal descendent of such individual, of such individual's spouse or former spouse, or of a parent of such individual; (D) the spouse or former spouse of any lineal descendent; or (E) the estate or trust of a deceased individual who, while living, was described in any previous subdivision.
- Legally adopted children considered as family members.
- In 2003, 15,000 subchapter S corporations paid excise taxes.
- Approximately 11,000 had all of their sales, property, and payroll located within Tennessee.
- 2003 excise tax liability for 11,000 subchapter S corporations was approximately \$44.0 million (average liability of \$4,000).
- 5% of the 11,000 subchapter S corporations are considered family-owned (550 subchapter S corporations).
- Estimated decrease in state revenue resulting from the excise tax exemption equals \$2,200,000 (\$4,000 average tax liability X 550 subchapter S corporations = \$2,200,000).
- Estimated that many family-owned businesses organized as either proprietorships or corporations (under different types of charters) will switch to subchapter S type charter to take advantage of the excise tax exemption. As a result, it can be expected that excise tax collections will continue decreasing into the future unless gains are realized elsewhere.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director